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**AUDIT AND MANAGEMENT CONSULTING DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES**

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05 January 2001

To: Ms. Anna Tibaijuka, Executive Director
United Nations Centre for Human Settlement (Habitat)

From: Esther Stern, Director 
Audit and Management Consulting Division, OIOS

Subject: **OIOS Audit Number AF00/101/1: Audit of the UNCHS Settlement
Rehabilitation Programme in Northern Iraq**

1. I am pleased to present herewith our final report on the subject audit which was conducted in Iraq in September 2000.
2. We were pleased to note from your response to the draft report that UNCHS was in general agreement with the main findings and recommendations of the audit. On the basis of your response, we are pleased to inform you that we have closed recommendation Nos. 001 to 003, 006, 007, 009 to 014, and 016 contained in the draft report. In order for us to close out the remaining recommendations – Recommendation Nos. 004, 005, 008, 015, 017 and 018 of the final report, we request that you provide us with the documentation requested in the text of the final report. We would appreciate receiving your comments and the requested documentation by 4 March 2001 in order to close these recommendations.
3. AMCD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.
4. I take this opportunity to thank the management and staff of Habitat, in Iraq and Nairobi, for the assistance and cooperation provided to the auditors in connection with this assignment.

Cc: Mr. J. Connor
Mr. J. Halbwachs
UN Board of Auditors
Planning and Compliance Officer, OIOS
Chief, Iraq Programme Unit



United Nations
OFFICE OF INTERNAL OVERSIGHT SERVICES
Audit and Management Consulting Division



OIOS Audit of the UNCHS settlement Rehabilitation Programme in Northern Iraq

Audit No. AF00/101/1

Report date: 05 January 2001

Audit team:

Dagfinn Knutsen, Auditor-in-Charge
Satish Ratnam, Auditor

**Audit of the UN Centre for Human Settlements (Habitat) - Settlement Rehabilitation
Programme in Northern Iraq (AF00/101/1)**

Executive Summary

In September 2000, OIOS conducted an audit of the United Nations Centre for Human Settlements (Habitat) Settlement Rehabilitation Programme in Northern Iraq. The primary objectives of the audit were to assess the efficiency and effectiveness of project management including local contractor procurement procedures, project monitoring, evaluation of completed projects, and monitoring by Habitat headquarters. In addition we reviewed the adequacy of cash management and administrative procedures.

The major findings were as follows:

- ❑ Local requisitioning field offices performed procurement activities including preparation of tender documents, selection of contractors for invitations to bid (ITB), sending ITBs, answering contractors' queries, and evaluation of bids. This resulted in a lack of segregation of duties and significantly increased the risk of irregular activities.
- ❑ Procurement delegation of authority had not been provided to the field office (Northern Iraq) resulting in delays in implementing projects.
- ❑ Contractors' capabilities (financial, material and human resources) had not been established by Habitat and they had to rely on lists of contractors supplied by the local authorities (LA). Thus, there is no assurance that contracts have been executed in an efficient and effective manner.
- ❑ Procedures to evaluate contractors had not been fully established and the evaluations being performed were not independently verified increasing the risk that inefficient contractors were being used which could result in low project implementation rates.
- ❑ Cash payments of approximately \$500,000 per year are being paid to LA's building inspectors who do not work for or provide any services to Habitat.
- ❑ Imported materials (referred to by Habitat as "in-kind" materials) make up approximately 15 per cent of construction costs. However, in several instances contractors have been able to supply these materials from the local market or by importation more quickly than by procurement from Nairobi and often at lower cost.
- ❑ A review of the Dohuk Field Office's project selection process for Phase VIII found that a number of projects (including maintenance and upgrading of main highways, the supply of heavy construction equipment and a sports center) proposed by the LAs did not appear to fit within the project mandate of UNCHS or the SCR 986 programme. Furthermore, there were inadequate policy guidelines from OIP/UNOHCI to address project selection criteria.

- Cash transfers in amounts of up to \$400,000 from Baghdad to Northern Iraq and from Erbil to the field offices were done by vehicle, often by local staff members, which posed an unnecessary security risk to the personnel and the funds.

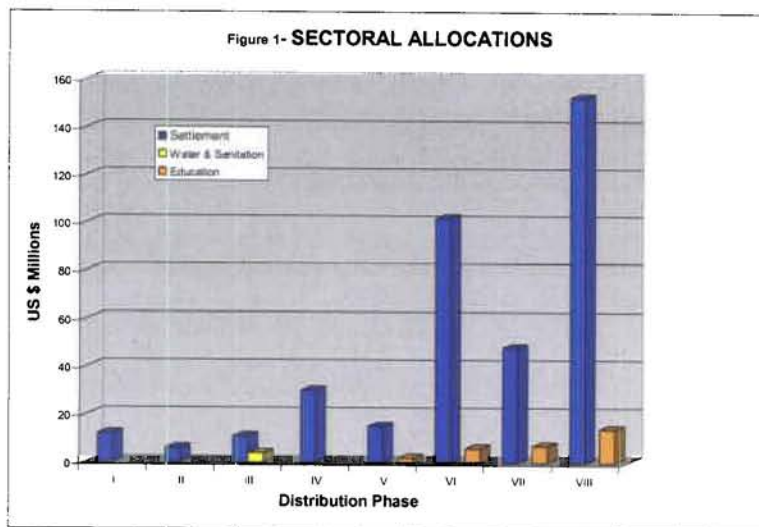
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I. INTRODUCTION

1. In September 2000, OIOS conducted an audit of the United Nations Centre for Human Settlements (Habitat), Settlement Rehabilitation Programme in Northern Iraq. The audit was performed in accordance with the general and specific standards for the professional practice of internal auditing in United Nations organizations.

2. Habitat has been involved in implementing project activities under Security Council Resolution 986 since Phase I of the Iraq Programme. Activities under the Iraq Programme, which started in June 1997, are to resettle internally displaced persons in the Northern Iraqi Governorates of Erbil, Dohuk and Suleimaniyah. Projects being implemented fall within the following sectors: housing and shelter, education, health, water and sanitation, roads and bridges, and agricultural and public services. As can be seen from Figure 1, there has been a substantial growth in Habitat's activities in recent distribution phases due to the high level of allocations to Northern Iraq projects as a result of the huge growth in revenues from Iraqi oil sales.



3. Habitat's project activities should be seen within the context of the Memorandum of Understanding (MOU) between the Secretariat of the United Nations and the Government of Iraq on the implementation of Security Council Resolution 986 (1995). In the MOU, the Government of Iraq was required to effectively guarantee equitable distribution of humanitarian supplies to the Iraqi population utilizing revenues from Iraqi oil sales under the "oil for

food" programme. Besides Habitat, nine other UN agencies and programmes are implementing projects in Northern Iraq under the coordination of the Office of the Iraq Programme and the UN Office of the Humanitarian Coordinator for Iraq (UNOHCI).

4. The findings and recommendations contained in this report were discussed with Habitat project management in Northern Iraq and, subsequently, with Habitat officials in Nairobi who were provided with a summary of the major findings during the exit conference. Seven audit observations were issued during the audit and Habitat project management replied to them. There were also some issues for which audit observations were not issued. These were discussed during the exit conference in both Iraq and Nairobi. Management's comments on the draft report are reflected in the report as appropriate and are identified in italics.

II. AUDIT OBJECTIVES

5. The objectives of the audit were to:
- i. Assess the efficiency and effectiveness of project management including project implementation, evaluation of completed projects, and monitoring by Habitat headquarters;
 - ii. Assess the efficiency and effectiveness of procurement procedures and their adherence to established regulations and rules; and
 - iii. Review the adequacy of cash management, financial and administrative policies and procedures at project headquarters and field offices.

III. AUDIT SCOPE

6. The audit included a review of financial and administrative procedures of the project, procedures established for the pre-construction and construction and maintenance periods of the substantive work of the project as well as support functions such as materials management, tendering and procurement procedures and various other issues relevant to the project activities. Our review consisted of examining books and records, programme documentation such as contracts, tender documents, and invoice progress statements. In addition we interviewed senior Core Team officials in Erbil and key field office officers. We also visited the three field offices (Erbil, Suleimaniyah and Dohuk), project sites, warehouses and other installations. Our review of project activities focused on the Suleimaniyah Field Office which is implementing approximately 46 per cent of all construction activities.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Contract tendering and bidding procedures

Inadequate segregation of duties in the contractor selection process

7. Approximately 85 per cent of project resources are paid to contractors executing the construction works. The audit, which included a review of tendering procedures in all three field offices, found that in all instances the field office was responsible for preparing tender documents, invitations to bid (ITBs), selecting contractors to send ITBs, answering contractors' queries, evaluation of bids and shortlisting the contractors. The audit also found that the structure of the field offices did not allow for an adequate level of segregation of duties in the tendering process. An international field coordinator, who is the sole international staff member, heads the office. While each field office is organized differently, typically each office has two main sections: (i) an office engineering primarily responsible for the pre-award phase; and (ii) construction engineers who are responsible for the actual construction works once a contract has been awarded. The office engineering functions include design, preparation of bills of quantities and preparation of tender

documents. None of the field offices has a separate procurement unit to deal with the awarding of contracts. While the Core Team office reviews the tendering documents this did not constitute an adequate check of the procedures in the field offices. It was also noted that procedures in the field offices were different resulting primarily from a lack of standard operating procedures (SOPs).

8. As a result of the lack of segregation of procurement functions, the project is unnecessarily exposed to risk of fraudulent activities resulting from the manipulation of the tender process. In our view, a procurement section needs to be established at the Core Team office which would be responsible for the procurement activities of all the field offices. In order to successfully implement such a strategy additional resources would be required including a qualified and experienced procurement officer and support staff.

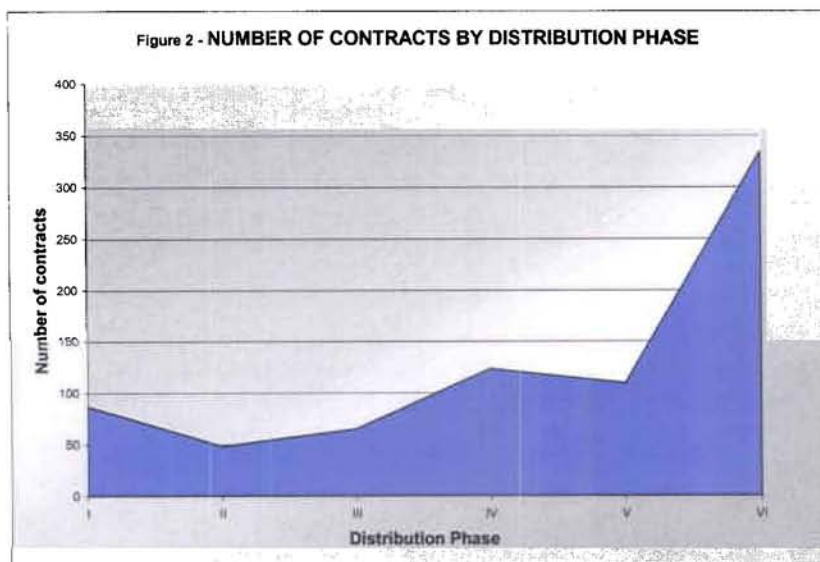
Recommendation 1

In order to reduce the risk of fraud in the procurement process, Habitat should establish a professional procurement section, staffed with qualified and experienced personnel, within the Core Team of the Northern Iraq Project which will be responsible for all procurement activities including the selection of construction contracts (AF00/101/1/001).

9. *In their reply to the draft audit report, Habitat indicated that it agreed with the recommendation and has made provision for procurement staff in the new organizational structure for Northern Iraq. They indicated that this would be implemented in January 2001. The recommendation has been closed.*

Procurement authority had not been delegated to Habitat in Iraq

10. In conjunction with the measures, described above, to improve segregation of duties by establishing a procurement section in the Core Team, there is also a need to delegate procurement authority to the field office. Currently, the field office does not have any procurement authority to purchase materials, supplies, or to enter into construction contracts. On the average, it takes approximately six weeks for cases sent from the field office to be approved by the



United Nations Office in Nairobi (UNON) or the UNON LCC, which is responsible for approving all procurement actions. This has resulted in considerably lengthening the project implementation time frame. In our view, this fact along with the increased level of procurement activity (Figure 2), resulting from the huge increase in funds allocated to the Project, needs to be reflected by delegating authority to Habitat's Chief Technical Advisor (CTA) to approve the procurement of goods and services, including construction contracts.

11. Furthermore, the delegation of authority should be adequate to ensure that the Project can process a substantial portion of the procurement cases in a timely manner. Currently, the UNON Committee on Contracts reviews all cases exceeding \$150,000. While \$150,000 could be considered as the minimum amount delegated to the Project it may be necessary to consider a higher level of delegation of up to \$200,000 in order for the project to achieve significant productivity gains in project implementation. We wish to emphasize that the delegation of procurement authority should be contingent on the establishment of a professional procurement section in the Core Team and appropriate internal controls.

12. It was necessary for the Project to obtain approval from Nairobi (UNON) for tenders before ITBs could be sent out. While UNON, in most cases, quickly approved the tender, it took an additional two to three weeks for the complete process including preparation of documents by the field offices, review by the Core Team, transmission of voluminous documents and conveying the approval to the appropriate field office once received from Nairobi. Moreover, this process did not add any significant additional value to the project process. In our view, an appropriate alternative procedure should be established for individual project approval which does not delay project implementation. This should include a procedure to inform Habitat and UNON in Nairobi on a regular basis of projects that will be implemented.

13. We also found that it was the normal practice in field offices to invite only around seven contractors to bid on contracts. In our view, this limits competition and may substantially increase the risk of collusion. Consideration should therefore be given to increasing the number of bid invitations sent out.

Bid security is not being obtained

14. Procedures had not been established to obtain bid security from contractors invited to bid. This enabled a contractor to withdraw from a contract awarded without any penalty being assessed. It may also result in additional time requirements for projects and increase the risk of collusion between contractors. While it is recognized that it may be difficult to obtain bid bonds due to the lack of banking facilities in Northern Iraq, other forms of security including cash, bank transfer or certified cheque would be acceptable. We also noted that payments to contractors are being made to bank accounts they had established outside Iraq.

Recommendations 2, 3, 4 and 5

Habitat should:

- (i) In order to expedite project implementation, request UNON to delegate an appropriate level of procurement authority to the Northern Iraq Project, to enable them to procure materials and supplies, and to enter into construction contracts (AF00/101/1/002);
- (ii) Eliminate the requirement for the Northern Iraq Project to obtain tender approval from UNON and Habitat in Nairobi before issuing ITBs to contractors, and develop alternative procedures to inform Nairobi of their intention to send invitations to bid (AF00/101/1/003);
- (iii) Direct the Northern Iraq project to increase the number of contractors invited to bid for construction contracts where considered feasible in order to increase competitive bidding (AF00/101/1/004); and
- (iv) Establish a procedure to obtain bid security from contractors who are bidding for construction contracts (AF00/101/1/005).

15. *Habitat informed us that they would seek delegation of authority of "...at least \$350,000 in order to have a meaningful impact on improved operations." Actions will be taken by January 2001. Regarding tender approval requirements, UNON will be asked by Habitat to eliminate this requirement. Recommendations 002 and 003 have been closed.*

16. *In commenting on recommendations 004 and 005, Habitat indicated that the field office in Northern Iraq will be directed to review current practices with regards to the short-listing of contractors for invitations to bid. Furthermore, Habitat will investigate the feasibility of establishing a procedure to obtain bid security from contractors. We request that Habitat provide us with the results of these reviews.*

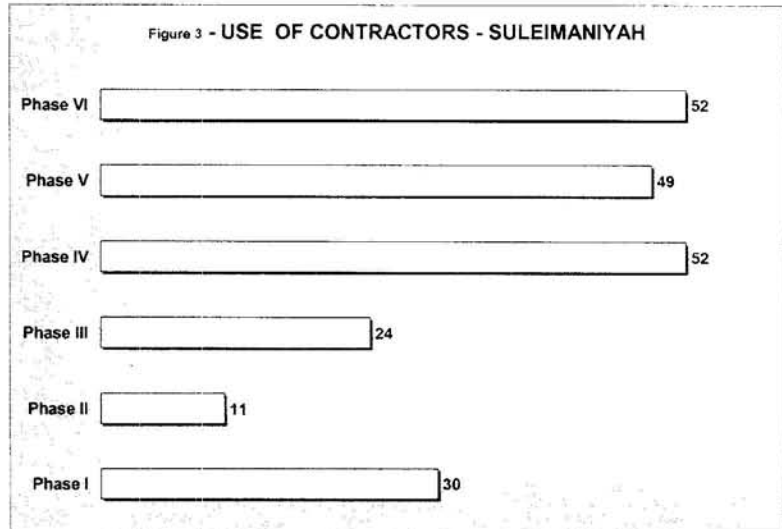
B. Contractors

Contractors' capacity and performance evaluation

17. In order to select contractors, field offices rely on a list of contractors submitted by the LAs. However, no procedures have been established by Habitat to determine the financial, human and material resource capacities of contractors. Furthermore, since there is no way of verifying company ownership it is possible that the same contractors could register under different company names. These factors pose risks to the Project as a result of inadequate contractor performance and manipulation of the tendering process resulting in higher project cost and longer completion time

frames. For example, our review of the Dohuk Field Office found that there were numerous cases where the contract time period had been extended. The reasons given did not fully explain this, but it is possible that this may have been partly due to inadequate contractor performance.

18. In our opinion, there is a need to independently establish a contractor roster for each governorate based on an evaluation of the contractors' resources and an internal performance evaluation of previous contracts. There is also a need to make the roster more transparent by *interalia* attempting to determine the underlying ownership of the companies. Habitat has recently engaged a consultant to review the capabilities of contractors. The main goals of the consultancy will be to establish a study on the "state of the construction sector in Northern Iraq" and to propose improvement measures for Habitat in order to implement simultaneous contracts of between \$70 and \$80 million.



19. We reviewed the process used to select contractors during our audit of the Suleimaniyah Field Office and found that 221 contractors were currently included on the LA's list. Moreover, we found that during the first six project phases, out of 218 contracts awarded by the Suleimaniyah Field Office (see Figure 3), the highest number of contracts awarded to one contractor was nine. In most instances, one or two contracts had been awarded to each contractor. Part of the reason for this may be that many of the contractors are not subsequently being invited to bid on contracts. Habitat should further explore the reason for this, which in our view seems to indicate that there are a large number of contractors available which, if used, could result in more projects being undertaken simultaneously thereby increasing the project implementation rate.

20. We also reviewed the procedures established by Habitat in Northern Iraq to evaluate contractors' performance and found that there was a need to improve the transparency of this exercise. Standard procedures had not been fully established for the field offices to conduct the evaluation. Also in our opinion, someone independent from the field engineers who are working closely with the contractors on a daily basis should perform these reviews. Furthermore, the evaluation should take into account such factors as requests for extensions and timely provision of materials and supplies which could have an impact on the timely completion of the contract.

Recommendations 6, 7 and 8

Habitat should:

- (i) Independently establish a contractor roster based on verified data and, if the contractor has previously performed a work for Habitat, on an independently verified evaluation of the contractors' performance (AF00/101/1/006);
- (ii) Establish a system to verify contractors' performance based on an independent written (Core Team) assessment (AF00/101/1/007);
- (iii) Determine the reason for the frequent extension of contracts in the Dohuk Field Office (AF00/101/1/008).

21. *Habitat indicated that measures would be taken to improve the roster of contractors in its field offices based on verified data by February to March 2001. Habitat also informed us that they will establish a system to verify contractors' performance by February 2001. Recommendations 006 and 007 have been closed.*

22. *Regarding recommendation 008, Habitat indicated that it would review the reasons for the extension of contracts in the Dohuk field office. In order to close this recommendation, we request that we be informed of the results of the review.*

C. Project management

23. During our visit to the field offices, we found that the only international staff member was the head of the office (field coordinator). All other project personnel were locally recruited with many, if not most, being former LA employees. In our view, this had severely limited the field coordinators' ability to manage the projects since they were primarily involved in office administration functions leaving little time for monitoring activities. It is planned that one additional international staff member will be recruited for each of the field offices and, while this will improve the situation, it may still be insufficient to monitor multi-million dollar projects and to provide sufficient segregation of duties. The situation at the Core Team office has improved with staffing of three international personnel. Excluding the start-up Phases I and II, we found that whereas the 13 per cent (project costs) allocations to Habitat up to phase VIII had increased by approximately 1000 per cent, the 2.2 per cent administrative overhead component had only grown by approximately 340 per cent in the same period. While there are economies of scale involved, we are of the opinion that there is a need to reassess the staffing levels at the Core Team and the field offices to determine the optimum mix of international and local personnel in order to achieve cost-effective and efficient implementation of projects.

Recommendation 9

Habitat should re-assess the staffing requirements of the Core Team and the field offices in order to determine an appropriate staffing mix in terms of skills and the number of international and local staff (AF00/101/1/009).

24. *Habitat informed us that they have already prepared a schedule of staffing requirements for its operation in Northern Iraq to be implemented in January 2001. Budgetary approval for the new structure is expected before the end of 2000.* The recommendation has been closed.

D. Payment to local authority personnel

25. We found that payments were being made to LA “site supervisors” deployed to the various project sites. From our discussions with the Programme Coordinator and the CTA we learnt that the “supervision mechanism” added no significant value to the project since Habitat has its own site supervisors who are responsible for ensuring the quality and timely completion of construction. While the local authorities may want to inspect the works, in OIOS’ view, there was no justification for the Project bearing any part of the cost.

26. The bases for these payments were discussed at a meeting on 1 February 1999 between the “Joint Committee” of the political parties of North Iraq, Habitat and UNOHCI officials. The draft minutes reflect a decision by the local authorities to establish “an appropriate system for the supervision of SCR 986 public works” the costs of which will be borne by Habitat “by compensating its (local authorities) supervisors for the additional tasks performed and costs incurred”. While the local authorities refused to sign the minutes of the meeting, as they were dissatisfied with the outcome of the discussions, Habitat decided to proceed with implementing the decisions.

27. We were informed that between 140 and 150 supervisors are currently receiving payments. The budget allocation requested for the third quarter (July to September 2000) amounts to \$129,700 (approximately \$43,000 per month or approximately \$500,000 per annum). We noted that this figure is likely to increase substantially in the future, given the rapid expansion of the programme. Recent correspondence from the local authorities also indicates that they are dissatisfied with the current levels of payment and are pressing UNCHS for substantial increases. A proposal received on 22 June 2000 “suggests” an immediate revision from current levels to a new range of compensation of \$90 to \$260 per project with a ceiling of \$800 per month per supervisor. Payments in excess of \$1 million per annum can therefore be expected in the coming phases.

28. Security Council Resolution (SCR) 661 (paragraph 4) decided “...that all States shall not make available to the Government of Iraq, or to any commercial, industrial or public utility undertaking in Iraq or Kuwait, any funds or any other financial or economic resources and shall prevent their nationals and any persons within their territories from removing from their territories or otherwise making available to that Government or to any such undertaking any such funds or resources and from remitting any other funds to persons or bodies within Iraq or Kuwait, except

payments exclusively for strictly medical or humanitarian...” Making payments to Iraqi civil servants who are not contracted by the UN humanitarian programme would therefore seem to be in direct contravention of SCR 661. Moreover, the legal and political ramifications of these payments have not been sufficiently addressed.

29. Payments of this nature have become common practise with many of the UN agencies operating in Northern Iraq. In order to stop this practice, UNOHCI should coordinate an overall effort by the UN implementing agencies to accomplish this.

Recommendation 10

Habitat, in consultation with UNOHCI, should address the legal and political ramifications of paying allowances to Local Authority personnel who are not employed by and do not provide any required service to Habitat and determine an appropriate way to eliminate these payments (AF00/101/1/010).

30. *Habitat informed us that they would discontinue the current practise when UNOHCI makes a final decision in this regard. UNOHCI has drafted a position paper on “emoluments” which is currently under review by OIP and other bodies. OIOS will follow up with OIP on this issue and request them to clarify the legality of paying allowances to local authorities personnel. The recommendation has been closed.*

E. Materials management

Inventory control procedures need to be improved



Figure 4 - Phase I water pumps in Sueimaniyah warehouse

31. We reviewed the material management systems in the central warehouse in Erbil and in the Suleimaniyah Field Office warehouse and found that there was no segregation of duties for the receiving, recording and issuing functions. The Logistics Administrator was responsible for recording receipts and issues of materials in the inventory database and on the Excel spreadsheet used to produce the Monthly Logistics Report. In OIOS' view, separate staff members should be assigned the tasks

of: (i) receiving, (ii) recording receipts and invoices and (iii) issuing materials in order to provide adequate segregation of duties and establish accountability.

32. Furthermore, standard operating procedures had not been established for the warehouse operations. With current inventories of approximately \$3.5 million and the expected increase in the next phases, written procedures are necessary to provide adequate safeguards of inventories. Our review also found that regular inventory counts had not been conducted. We were informed that informal checks had been made from time to time, however, these are not a substitute for properly planned and independently executed counts. Standard operating procedures should therefore include procedures to conduct regular inventory counts. Our review of the inventory procedures at the Suleimaniyah Field Office warehouse revealed similar problems. Therefore, the Core Team management, should review the situation for all the field offices and adopt a common inventory management system which includes a proper segregation of duties, regular physical inventory counts and an inventory database which reflects the current stock position.

Recommendations 11 and 12

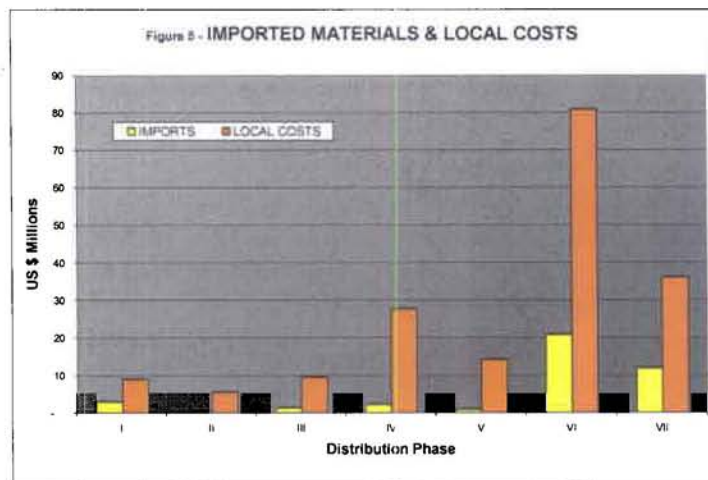
Habitat should:

- (i) Develop a common inventory management system to be used by all field offices as well as standard operating procedures for warehouse and materials management including procedures for regular physical inventory counts (AF00/101/1/011); and
- (ii) Ensure that adequate segregation of duties is provided for the receipt, recording on the inventory system, and issuing of materials from inventory (AF00/101/1/012).

33. *Habitat informed us that they would develop a common inventory system and standard operating procedures for all field offices by March 2001.* Recommendations 011 and 012 have been closed, but are subject to follow-up by the Resident Auditor.

Management of imported (in-kind) materials needs to be strengthened

34. Although construction activities for Phase I to IV are almost fully completed, approximately \$1.6 million worth of materials for these phases were still on hand (Figure 4). We were informed by field office management that materials ordered for a particular phase often arrived late, thereby requiring the contractor to supply these materials in order not to delay project implementation. It was also found that subsequent material orders did not take this into account resulting in additional



orders for in-kind material. In our view a mechanism needs to be established to ensure that there are no duplications in ordering and that subsequent orders are appropriately adjusted. In view of the large quantities of stock on hand from previous phases, there is also a need for the mission to determine if these materials can be used for current or future projects, or whether they should be disposed of.

35. The need to import a substantial portion of the construction materials has been identified as one of the factors increasing project time frames. Figure 5 illustrates the proportion of imported materials to local costs. We found that in those projects where the contractor had supplied the materials the construction period had been reduced. Programme management did however indicate that the practice of importing materials could not stop altogether since there was often a shortage on the market of the required materials and in other cases the materials were not available locally. In our opinion, management should maximize the use of contractor supplied materials and reduce the level of reliance on importing materials in order to increase the rate of project implementation.

Recommendations 13, 14 and 15

Habitat should:

- (i) Review the inventory of materials intended for Phases I to IV to determine whether they can be used to meet the material requirements for future projects (AF00/101/1/013);
- (ii) Initiate write-off and disposal action for materials that are no longer required (AF00/101/1/014); and
- (iii) Establish a strategy to reduce the level of reliance on imported materials and substitute these with contractor-supplied materials in order to increase project implementation rates (AF00/101/1/015).

36. *Habitat indicated that they would review the inventory of materials imported under Phase I to IV and reallocate them by February 2001. They did not envisage that any of the materials would be written off. Recommendations 013 and 014 have been closed. Regarding recommendation 015, Habitat indicated that they would review the feasibility of reducing the level of reliance on imported materials by April 2001. We request that Habitat inform us of the results of the review.*

F. Project selection criteria

37. The audit included a review of projects (Figure 6) being considered by the Dohuk Field Office for possible implementation in Phase VIII. The Office had made an initial review of the list of projects submitted by LAs and was in the process of seeking additional information on the project proposals. The initial list contained a number of projects that did not meet the criteria for the types of projects mandated under the SCR 986 programme. For example, these projects included construction equipment and machinery, upgrading of main highways in Northern Iraq (e.g. the Zakho-Duhok road), construction of grain silos and a sports stadium, and equipment and materials for roads and

bridges. At this stage of the project screening process OIOS would have expected that unsuitable projects would have been deleted from the proposals.

38. Under the revised project selection modality being implemented by UNOHCI, the list of projects proposed by the LAs is initially reviewed by UNOHCI who then forwards it to the responsible UN implementing agencies. The objective of this modality is for UNOHCI to “filter” projects to



Figure 6 - Habitat constructed IDP housing complex in Suleimaniyah

ensure they meet the criteria under SCR 986. The audit found, however, that there was still a fundamental flaw in the project selection process since Habitat’s criteria did not agree with the criteria established by UNOHCI. While a certain amount of flexibility may be desirable, in our view, it is necessary for UNOHCI to provide additional guidelines to Habitat and the other UN implementing agencies in order to avoid repercussions for the Iraq Programme which could result, for example, from the Iraqi authorities. In an OIP memorandum to the Humanitarian Coordinator, dated 8 February 1999, it was stated that “There is an understandable tendency on the part of the local authorities wrongly to see the allocation as intended for infrastructure rehabilitation.” The proposals submitted by the LAs for Phase VIII indicate that this remains a problem.

Recommendation 16

Habitat, in consultation with UNOHCI, should formulate a project selection criteria in order to ensure that projects meet the criteria under SCR 986 and inform the local authorities of the selection criteria in order for them to improve their project submission requests (AF00/101/1/016).

39. *Habitat informed us that, in consultation with UNOHCI, they would further elaborate their project selection criteria and inform local authorities.* OIOS will be following up with OIP/UNOHCI on this issue. The recommendation has been closed.

G. Administrative Issues

Baghdad Liaison Office and Office in Amman

40. As part of our audit, we conducted a review of the functions of Habitat’s Baghdad Liaison Office (BLO) and the Office in Amman (OIA). Currently the head of the Liaison Office is also at the P-5 level. Habitat is in the process of establishing an observation mechanism in the Centre and South

of Iraq for the newly established housing sector that is headed by an L-5 staff member. OIOS is of the view that the head of the observation team should also act as the liaison officer for UNCHS' activities in Iraq. This would prevent the possible confusion of having two Habitat representatives attend meetings and contacting government offices. The result would be a more streamlined and efficient operation and reduce costs.

41. UNCHS operates an office in Amman, Jordan whose function is to provide support for the Habitat Iraq Programme. Support is provided by a driver/messenger (G-3) and an office secretary (G-6) is in the process of being recruited. Annual operating costs are approximately \$30,000 and, in addition to personnel costs, include office rentals in the UNESCO premises, vehicle repairs and maintenance, fuel, and other operating costs. We reviewed the weekly activity reports from the OIA and found that the workload was minimal and in some cases the task seemed unnecessary. The duties consisted mostly of delivering a pouch, making hotel reservations and arranging for visas, all of which could be performed by UNDP in Amman. In some weeks the only activity was one pouch delivery. We concluded that there were no economy or efficiency considerations for maintaining an office in Amman.

Recommendations 17 and 18

Habitat should:

- (i) Review the requirement for two officers at the P-5/L-5 level to be based in the Baghdad office and combine the requirements for the head of the observer group and the Liaison Officer in order to ensure the efficient functioning of Habitat's operations in Iraq (AF00/101/1/017).
- (ii) Make arrangements with UNDP in Amman to provide the basic administrative services for the Iraq operation and transfer the responsibilities from the Office in Amman (AF00/101/1/018).

42. *Habitat informed us that they have developed a new organizational structure for its operations in Iraq and are considering fielding a senior representative in Iraq to oversee their activities. Regarding the Amman office, Habitat indicated that, as a first step, they would assess UNDP's capacity in Amman to provide services by January to February 2001.* In OIOS' view, we have still not been provided with adequate justification for maintaining the Amman office and request that we be provided with the assessment of UNDP. We also request that Habitat provide us with the proposed organization structure for its operations in Iraq and the functions of the various personnel.

V. ACKNOWLEDGEMENT

43. We wish to express our appreciation for the assistance and cooperation extended to the auditors by Habitat.

A handwritten signature in black ink, appearing to read 'ES', with a large, stylized flourish extending from the end.

Esther Stern

Director

Audit and Management Consulting Division, OIOS